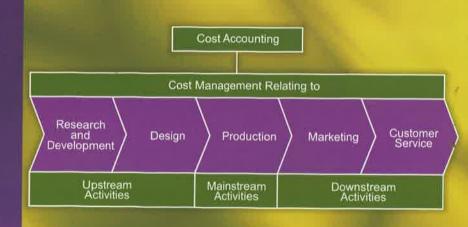
Eastern Economy Edition

Thirteenth Edition

Cost Accounting Theory and Practice







Bhabatosh Banerjee

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- 15. (a) Present Machine (-) ₹ 1,550; A: (-) ₹ 5,180; B: ₹ 3,770.
 - (b) 13%, 11% and 14% (approx.) respectively.

Section II: Risk Analysis

- 8. ENVP ₹ 7,000, Mr. X should open.
- 9. NPV: ₹ (-) 17,290 (expected cash flow ₹ 95,000 p.a.)
- 10. Range: ₹ 26,000; Expected NPV ₹ 59,000.
- 11. (a) ₹ 20,564, (b) Fixed cost 22%; contribution 9.6%

CHAPTER 20: STRATEGIC COST MANAGEMENT

- 20. (a) Cost reduction target ₹ 1,50,000.
 - (b) Currently feasible actual costs come down to ₹ 16,00,025 which becomes (almost) equivalent to the target cost. Hence, the product would be viable.

			Promot mound be ma	.010.
30. (a)		A	В	C
	Prime cost	80	80	90
	Production overhead			
	(using ABC)	70.49	44.25	33.67
	Total production cost	150.49	124.25	123.67
	Add: Profit 20% on sale	s		1.7
	(=25% on cost)	37.62	31.06	30.91
(b)	Selling price	188.11	155.31	154.58

- (c) Product A: Target cost ₹ 136 (i.e. ₹ 170 less 20%). Current (feasible) cost: ₹ 150.49. Hence cost reduction target per unit ₹ 150.49 136.00 = ₹ 14.49.
- 31. (a) Value added costs (1+7) ₹ 1,80,000; Non-value added costs (4+5+6) ₹ 55,000; Costs falling in grey area (2+3) ₹ 25,000; Total ₹ 2,60,000.
 - (b) Value added costs: ₹ 1,95,000; Non-value added costs: ₹ 65,000; Total Costs ₹ 2,60,000.
- 32. Cost per unit (₹): Traditional method: 8.0; 5.5; 3.5; 4.7 and 13 for periods 1,2,3,4 and 5 respectively. Life cycle costing: ₹ 4.50 per unit over the period. Former shows significant variation from period to period leading to erroneous management decisions that may be taken based on these cost numbers. But life cycle costing provides cost number that will lead to more informed management decisions.
- 33. Target cost (export price less 15%): ₹ 5,79,06,250. Drifting (current allowable costs) ₹ 5,12,50,000. Since the drifting cost is far less than the target cost, the export order is recommend.
- 34. Evaluate the proposal by comparing relevant costs with savings in costs of quality, plus opportunity gain (contribution) from additional sales.
 - (a) Relevant cost for choosing the new component: ₹ 3,50,000 (i.e. ₹ 35 × 10,000); Savings in quality costs ₹ 4,19,000 (i.e. Rework ₹ 2,56,000; Customer support ₹ 8,000, Transportation ₹ 15,000 and Repair ₹ 1,40,000) plus opportunity gain for additional sale ₹ 5,00,000. Profit will increase by ₹ 5,69,000 (i.e. ₹ 4,19,000 + ₹ 5,00,000 ₹ 3,50,000).
 - (b) Even if the additional sale of 100 printers does not take place, the proposal is worth-implementing because savings in quality costs exceed relevant cost by ₹ 69,000.

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